

~~REF ID: A6512~~

20 January 1959

25X1A9a

[REDACTED]

I received your letter on 15 January, rather fast service for a change. We in I/AR are pleased to learn that you will be doing the aircraft costing.

As to the disposal of the "Improvement Curve Tables" book, your suggestion seems a good one. It is a spare one and will not be needed in our work.

You have some questions regarding our request about coordinating with ORR cost information derived [REDACTED] on Soviet aircraft production. 25X1X7 We were not thinking in terms of coordinating proprietary information, but would appreciate knowing how the [REDACTED] work was done and seeing costing figures before you publish. The [REDACTED] Soviet defense report of last year raised a lot of questions in ORR (since the ratio ORR [REDACTED] about 25X1X7 2:1). The bulk of replying to inquiries fell upon I/ME although I/AR was involved. Your explanation of how the [REDACTED] estimate was derived 25X1X7 is interesting. I can not help raising the question - is such an estimate of any real value?

25X1X7

I realize your problems of trying to do a good job in costing not only aircraft but other defense items as well. Since you are experienced in the aircraft costing, I suggest that you do as complete and detailed a job on this portion as possible. And, if at all possible, train some one [REDACTED] as to the process. Otherwise, much of your effort will be down the drain when you leave. There are ofcourse personal suggestions and opinions.

I had some doubts as to your method outlined in paragraph 6 of your memo. So I asked Randy to work up a discussion of that portion; which I have put into the following paragraphs.

We agree on the use of average cost per pound of empty weight by type and the use of an 8% per cent curve. You may be interested to know that the US average cost per pound of empty weight for all types of aircraft was somewhat greater than \$50.00 per pound for the 500th aircraft. This was in 1950.

However, one statement in your memo confused us. You stated that "Soviet costs would be derived by the mid points of their production by plant." We feel that you did not mean this statement to be taken literally. However, if you mean to multiply the cumulative average cost at the mid-point of the annual production at a particular plant by the annual

production we believe that you would be making a mistake. Consider the following example:

Cumulative production at Plant A as of 1 January 1959 - - - - - 200 aircraft  
Total production at Plant A during 1959 - - - - - - - - - - - 300 aircraft  
Cost of No. 1 Aircraft - 1.00 million  
Slope of Cumulative Average Cost Curve - - - - - - - - - - - - - - - - - - - 85%  
Cumulative Average Cost at 300th unit - - - - - - - - - - - - - - - - - - - 0.263 million  
Cumulative Average Cost at 200th unit - - - - - - - - - - - - - - - - - - - 0.269 million  
Cost of cumulative production through 1959 =  $300 \times .263 \text{ million} = 78.9 \text{ million}$   
Cost of cumulative production through 1958 =  $200 \times .269 \text{ million} = \underline{57.8 \text{ million}}$   
Cost of production during 1959 - 21.1 million

However, if the cost at the mid-point (250th aircraft) is used, the cost of production during 1959 would be:  $100 (300-200) \times .274 \text{ million} = 27.4 \text{ million}$ , which is about 30% higher than the figure given above (21.1 million).

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That's about all for now. I am enclosing a copy of the significant digits that you requested.

I talked to I/MK about your memo last week, but don't know of any comments they may have.

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Attachment

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